RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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LETTER 759 **June 20, 1979**

June 7, DJIA 835.15; PTI 999; A-D Ratio –19.12
June 15, DJIA 843.30; PTI 1013; A-D Ratio –18.63

THE PICTURE: The sum total of my thoughts, concepts, intuitions–and charts, says one thing, and it's STAG-FLATION. In another part of this report I show my chart of bonds and commodities. When interest rates come down (as they are now doing) we can guess that the market senses recessionary tendencies. But when commodities go up (as they are now doing) we can infer that the market smells more inflation.

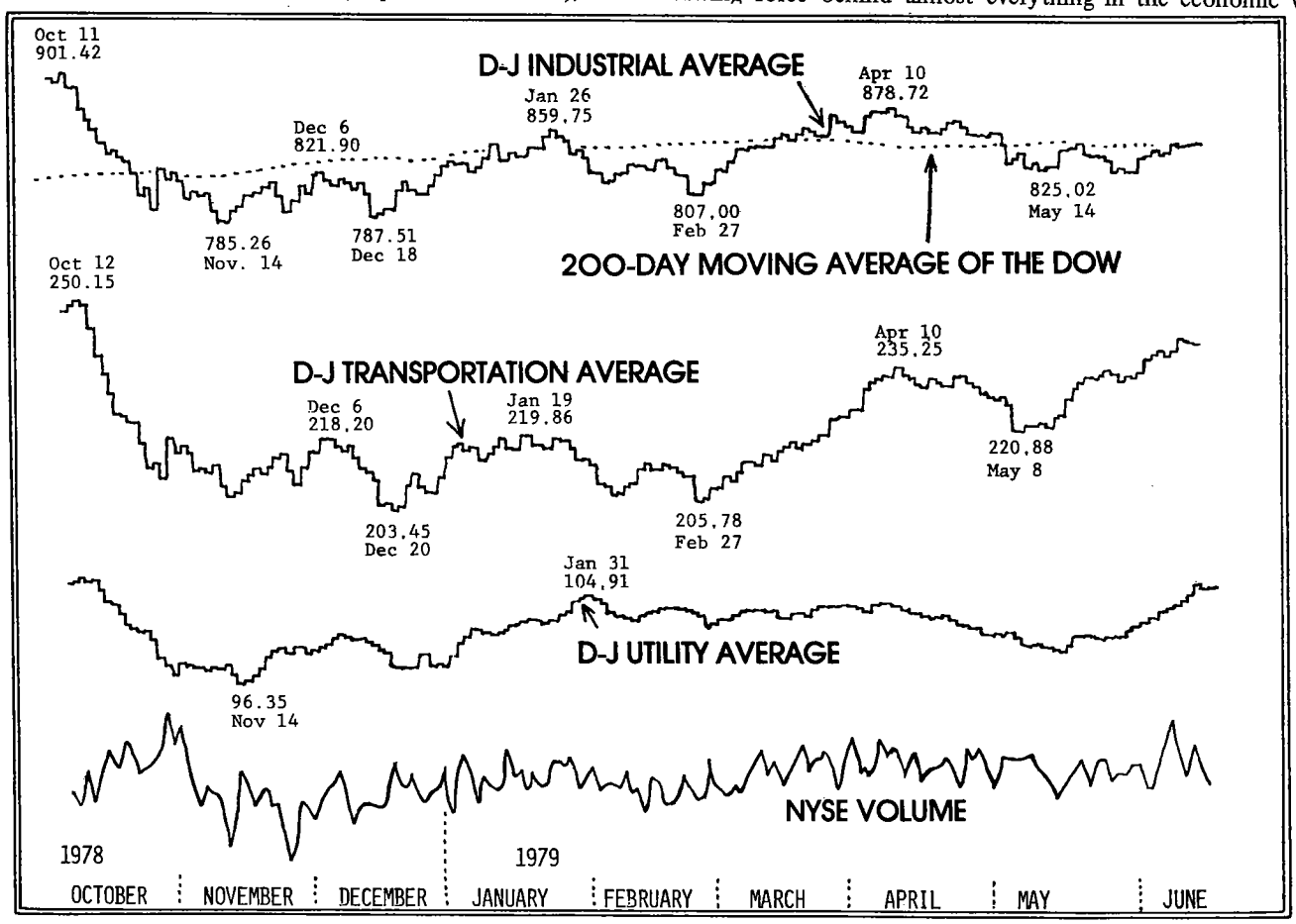
It seems to me that President Carter has 1,000 opinions but not a single conviction. The President never gets tired of telling us that he's "fair" and honest, but he may yet go down in history as Captain Wishy-Washy, the biggest fumbler-bumbler of them all. Currently, we are treated to the sight of Carter's man Miller (Fed Chairman Miller) presiding over a scene of rampant inflation. So soft on inflation is Mr. Miller and his Board that Carter's Treasury Secretary (Mr. Blumenthal) is in the extraordinary position of having to urge Mr. Miller to tighten the money screws. All the while the President is following his usual posture of wishing that somehow it would all go away. But it won't.

The clearest picture of the future I can conjure up is this one: stag-flation and frustration from here to election time, with probable rising unemployment and perhaps a pseudo-recession near election. Then a frantic period of renewed money-pumping by the Fed, leading to a renewed attack on the dollar. Next, a forced march to higher interest rates (to protect the dollar), all of which turns stag-flation into a real, honest-to-God recession. And finally, the inevitable choice (if indeed it can be called a "choice") between monetary madness or depression. And we stand a good chance of ending up with both.

Front Page Comment: With the squeeze on US incomes due to inflation and taxes, the *urge to speculate* is now rampant. From every quarter I see literature or new services devoted to speculating in options, methods for picking take-over stock candidates, systems for speculating in switch-funds, schemes for pyramiding your money into a real estate fortune, and what appears to me to be the biggest and most exciting new game of all–speculating in commodity futures.

Is it any wonder (given the current inflationary, confiscatory environment) that the gambling stocks have been the biggest game on Wall Street? But I want subscribers to remember that there will be more money saved (losses avoided) resisting the new speculative fever than there will be made joining in the fever. Twenty or thirty year veterans of the markets will understand the meaning of that statement. Newer students may have to learn through experience. And maybe that's the way it should be. Remember, "no pain, no gain."

There's no question in my mind but that INFLATION is the driving force behind almost everything in the economic world



today. Whether you talk about the Dow's earnings (ballooned perhaps 50% by inflation) or home-buying in California or commodity prices or consumer installment debt, all, absolutely all of it is colored by inflation or the fear of inflation.

No sooner had I written the above paragraph than I heard that M-1 money supply rocketed a record $6.9 billion for the latest week. This Administration's reluctance (including Fed Board members) to fight inflation is one of the greatest examples of fiscal cowardice I have ever seen. Yet I can only say that the people ultimately get what they deserve. The current Administration incompetents were voted in legally. The fruits of those election choices, bitter as they are, are now being tasted.

Lately, I find myself questionning my whole thesis of democracy and the "rule of every man." after a lifetime of firm belief in ***democracy*** built on a foundation of ***economic conservatism***, I am moving to the opinion that the two cannot exist together for long. In test after test I have seen everyone from presidents to shopkeepers opt for the easy way, the expedient way. The US since World War II has enjoyed the good life (i.e., the materialistic life) to be financed by future generations and at the expense of the dollar. Now we've got it all (we voted it all in): the big cars, the big houses, the big appetites and the big debts, trillions of dollars worth of those big debts.

Investing implies the purchase of something with the *expectation of return*. With inflation in the saddle, the concept of return loses its meaning. "Return of what?" one asks. Consequently, the market is now dealing with *timing* rather than investments. "Tell me when" is the demand today, and it doesn't matter whether we're talking about bonds, stocks, wheat or silver. Nothing is "to hold," nothing is for a decade or even a year. The result is market madness and a rush of funds first here, then there, as the frantic race to beat inflation goes on.

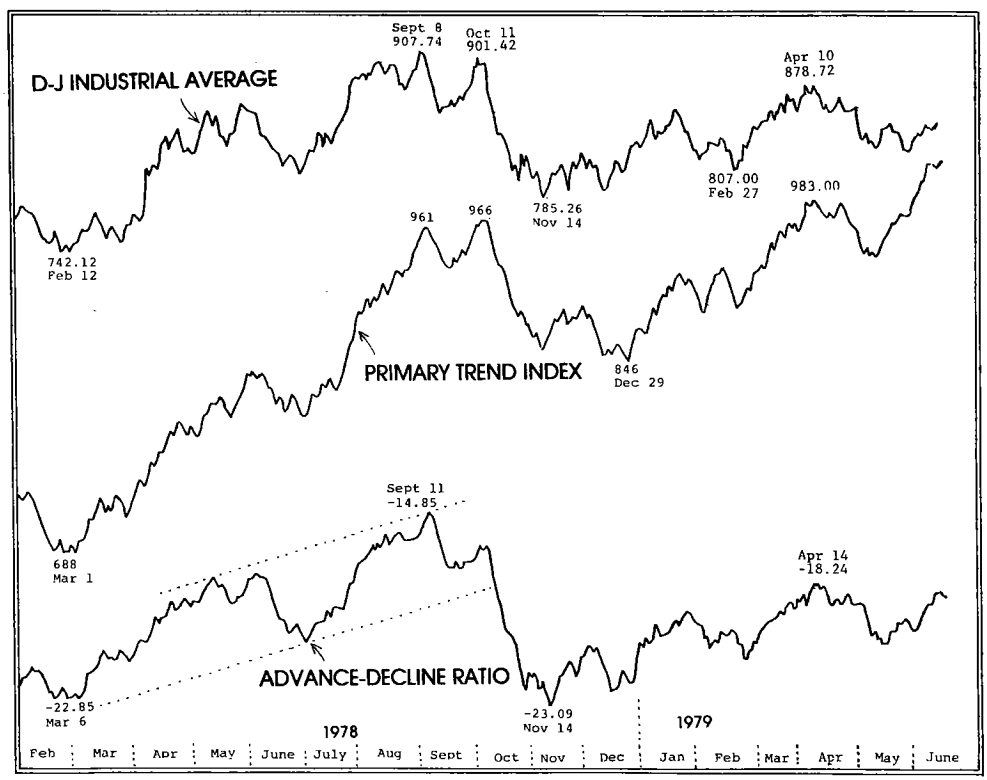
I've said this before, and I might as well repeat it. When a nation has debts as large as this one does, they can never be paid off. All of which puts us in the position of "inflate or die." No government in world history ever chose to oust itself; no government ever chose to die. With that thought firmly in mind, it is clear that the US has chosen and chosen again–to inflate. And only one thing will stop that process. The "one thing" is a toppling over of the debt structure–that or a fatal throttling of the forces of inflation as rising debt (which is deflationary) takes its toll in a final, deadly spiral of interest rates.

THE MARKET: Where were they when we needed them? I must say that I've never seen the technical indicators in such a state of disarray. Time honored indices have ceased to work. Studies that I've followed for years are whipsawing and malfunctioning. The Averages themselves are giving us clues, then taking them back like financial practical jokers. The result is frustration for most, and prizes for the few lucky ones.

As discussed in the study of Standard & Poor's 500 Stock Average in the last Letter, this has been a "trading range" market. The public never makes money in a trading range market for the simple reason that it tends to buy its stocks in the top third of the trading range and sell them in the bottom third. Now you do this three or four times and you can start counting what's left of your assets. Do it five or six times and you're probably going to leave Wall Street forever. Trading is never easy, and trading range markets have a habit of preying on the worst fears, instincts and judgments of the public.

All right, let's turn to the actual market and the price movement. On June 5 an abrupt advance boosted the D-J Industrial Average 9.44 points, to a closing price of 831.34 (see page 1 chart). On the same day the Transportation Average surged to 236.61, well above its April 10 peak of 235.10. The rally of June 5 thus presented the market with an important non-confirmation with Transports rising to a 7 month high, a high which was unconfirmed by Industrials (the Industrial Average was 47 points below its own comparable April 10 peak of 878.82.)

The rally continued to June 13, then a minor decline set in. At the time of this writing it remains to be seen whether the decline, following the non-confirmation, is a mere downward blip–or whether it will develop into something more. The test of the seriousness of any sell-off from here will rest a good deal with the Transportation Average. Since the Transports have been the *strength* of the picture (from a Dow Theory standpoint), I would want to see the Transports move lower with a vengeance before saying that the uptrend appears over.



Last week the Utility Average crossed above its January 31 high of 204.91, and this must be regarded as a plus for the market. It means that two out of the three Dow Jones Averages (Utilities and Transports) have pushed to 1979 highs, even though the Industrials (see page 1 chart) are still resisting the rise with a stubbornness that is extraordinary.

Conclusion: From the standpoint of Dow Theory and the Averages, the verdict is still out, but the risk-reward of playing the bull side seems risky and limited to me. The market is currently overbought and straining, and that "major over-sold bottom" which I have alluded to for so long still escapes us. I continue to think

that patience will be rewarded and haste will be penalized. Wall Street couldn't care less whether we wait a month or a year for what we want.

Turning to the Primary Trend Index, we see a clear new high on this amalgam of 8 critical averages and indices. The latest peak is the fourth in a series of non-confirmations between the PTI and the Dow, a series that began last September 11. This steady (and impressive) upward pressure in the technical syndrome (i.e., the PTI) would normally be expected to force the Dow higher. Yet the Dow resists and resists. Why the divergence? Why the silent struggle? I don't know, but it serves to keep me on edge. I like things to be in harmony in the stock market–and that's not happening now.

On the lower portion of the chart we see the A-D ratio which is for all purposes an unweighted average of all NYSE issues. The ratio is just short of its April 4 high, but still far below its peak of September 11. It's telling us that the average stock, though trending laboriously higher, has still not recovered from last year's "October massacre." As a rule, the A-D ratio responds rather well to the direction of the PTI, but since mid-May the A-D has been sluggish in the face of extraordinary PTI strength. The mystery should be over shortly (how long can a mystery go on!).

During the year I have written a good deal about my expectation of July being a most important month. I had thought all along in terms of July being an important bottom. But could I have been guilty of a preconceived target? Will July, instead, be an important top? It's possible, since my Fibonacci studies do not say "top or bottom," they just say that "July is very important." And I continue to believe that it will be.

The short-term or 4-week moving average of the Dow now stands at 851. The intermediate-term or 13-week MA now stands at 843. The long-term MA of the Dow now stands at 844. Thus, the three MA's are all within 8 points of each other, a most unusual occurrence.

I have drawn a triangle which connects significant recent highs and lows. Since the Dow has now moved to the apex of this triangle, we again see the equilibrium position into which the Dow has moved.

It is interesting to see that the moving averages and the apex of the triangle all fall roughly in the 840 area of the Dow. This is a level which has been crossed and re-crossed over a dozen times in the past decade. I consider the 810-840 zone as the fulcrum of the whole Dow pattern since the early 1960's.

The second chart throws more light on the Dow, and from a much longer-term standpoint. I have been watching this huge circle for many years, and I have commented on it frequently in these reports (the last comment appeared in Letter 749). What we see here is a chart showing the monthly high-low of the Dow from the period of 1942 to the present. I have applied a French curve to the upward sweep since 1942, and it is clear that the main thrust was ruptured during the smash from the 1966 high. Following the 1966 decline, the Dow traced out a series of major advances and declines. It is fascinating to note that the swings from 1966 to 1974 were ever-widening in scope, whereas the swings since 1974 have tended to telescope down to the present. This is shown by the trendlines within the circle.

The center of the circle is around 815-820, which, interestingly, is about 20 points below the 840 "center zone" for the Dow on the moving average basis.

One important facet of this circle formation is that it deals with TIME. Thus, it is apparent that by the end of 1979 or very early

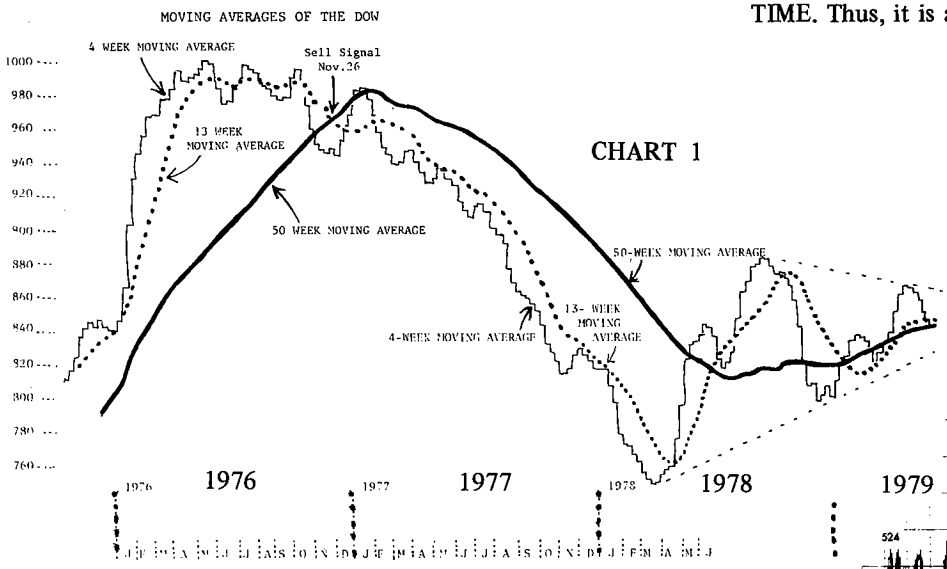


CHART 1

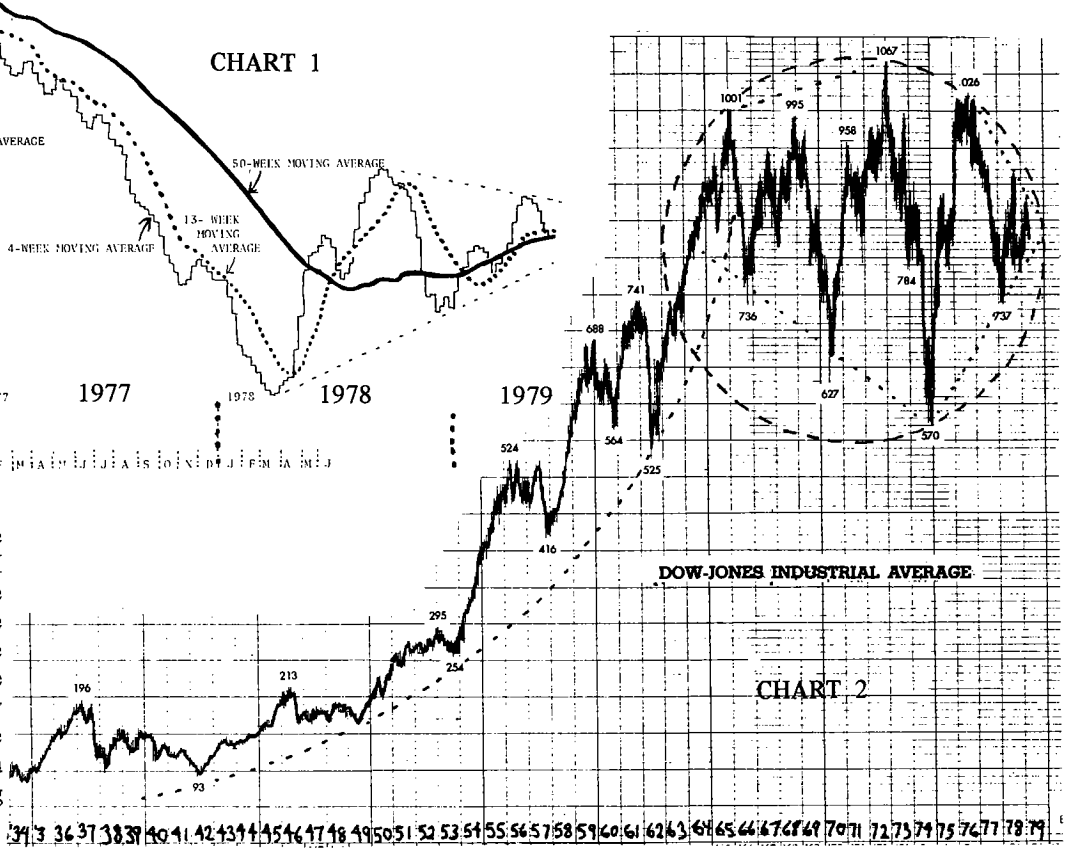
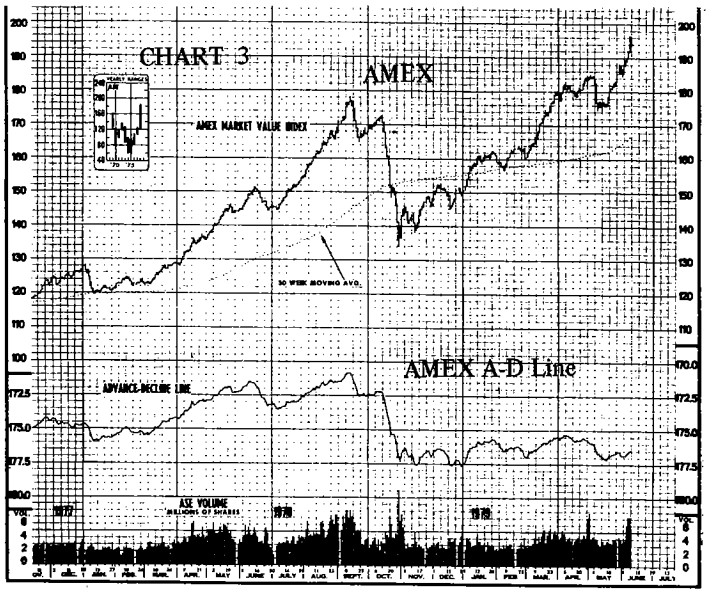


CHART 2

VIEWS: I want to present three market views, each of which, I believe, is vitally important. The first view (chart 1) takes in the three moving averages (MA's) of the Dow. This is a study that I have followed in these Letters for many years. The latest reading of the three MA's of the Dow presents a picture of equilibrium, frustrating equilibrium.

1980 the Dow must break out of the right side of the circle, a circle that has held the movements of the Dow within its confines for 17 years! What will the final breakout from the circle tell us? My instinct tells me that the direction of the breakout will be down, thereby counter-balancing the rise up to the circle, the rise that saw the Dow enter the circle during 1963. (Chart courtesy of Horsey, Salisbury, MD, 21801).

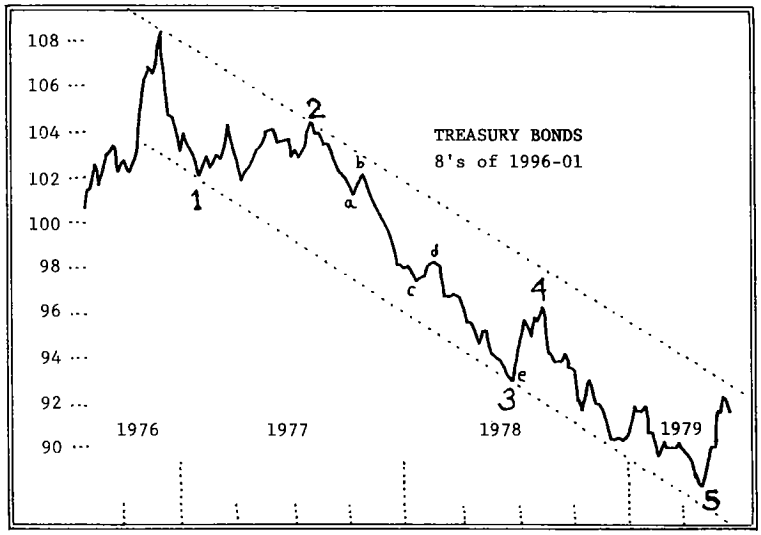
But I believe that a technician should be open-minded about his approach, and I want the market to tell me "which way." Thus, I will be as interested as any reader of this report to see what happens when the great circle is finally penetrated.



The third chart which I believe bears study at this time is the chart of the Amex Index together with the advance-decline line of the Amex. Note that although the price index on the Amex has surged to new highs, the A-D line has, since last November, been moving essentially sideways. The obvious conclusion is that the buying and speculation on the Amex has been very concentrated, very selective, and that is true. But some of the nastiest spills in stock market history have stemmed from just this kind of long, drawn-out divergence in which the price spurts but the A-D ratio refuses to confirm. In fact, this is the kind of action that preceded the 1929 crash. The A-D line all during 1929 has been going sideways, even while the Dow exploded to its high of 381. Therefore, I feel that the action on the Amex for the rest of 1979 should be particularly instructive.

MONEY, MONEY: Question: Russell, do you think interest rates have peaked?

Answer: This is one of the most frustrating questions of the day. The markets are trying to make us believe that rates have topped. Yet such respected authorities as Henry Kaufman, the Bank Credit Analyst and the Klein-Wolman Letter think not. I feel the odds are about 50/50, and I believe 25% to 50% of intended bond money can be committed here. There's a mountain of money on the sidelines, and that money has been waiting for "the peak" the way a cat waits for a mouse. A few weeks ago, the market guessed that the turn had been seen, and a hoard of cash poured into the money market. An amazing amount also went into the money rate futures. T-bill, T-bond and Ginnie Mae futures boomed as speculators ran the T-bill futures up to the equivalent of a drop of 1% in yields in a period of a little over a week! Late last week a sharp correction got underway.



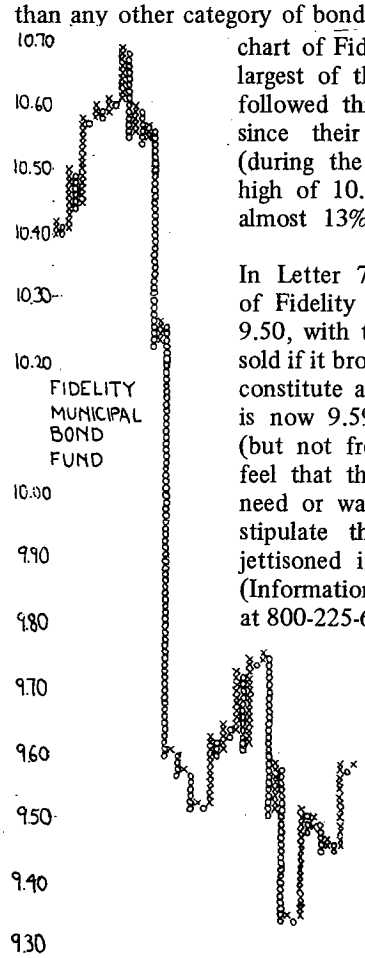
I show here my chart of the bellwether Treasury bond, the 8's of 1996-01. Here we see that the bond has approached the upper limit of its channel, but a breakout would require a rally to about 93. Nevertheless, the move so far is impressive, particularly since it occurred following an Elliott 1-2-3-4-5 count to the recent low.

Question: What would you do about bonds here?

Answer: As stated in the last Letter, I'd commit about 25% of intended bond money on any consolidation or pull-back. But I would prefer maturities in the 1985-1990 range on the Treasury bonds, maturities such as the 8's of '86 or the 8¼'s of 1990.

Question: What about buying municipal bonds here?

Answer: I probably get more inquiries about Municipal bonds than any other category of bonds. I show here my point & figure chart of Fidelity Municipal Bond Fund, the largest of the no-load muni funds. I have followed this and other muni bond funds since their inception. Fidelity collapsed (during the big bond bear swing) from a high of 10.69 to a low of 9.34, a loss of almost 13%. We may have seen the low.



In Letter 753, I recommended purchases of Fidelity at the then prevailing price of 9.50, with the stipulation that the fund be sold if it broke below 9.46 (that point would constitute a point & figure "sell"). Fidelity is now 9.59, yields around 5.8% tax free (but not free of state taxes), and I again feel that this fund is a buy for those who need or want tax free income. But I will stipulate that purchases here should be jettisoned if the fund breaks below 9.46. (Information on Fidelity can be obtained at 800-225-6190).

I can't follow all the funds, but I do like Oppenheimer Tax Free Fund and the Price Tax Free Fund. Most of the major no-load funds are advertised in the WSJ. I might add that I prefer the no-load muni bond funds over the individual muni bonds

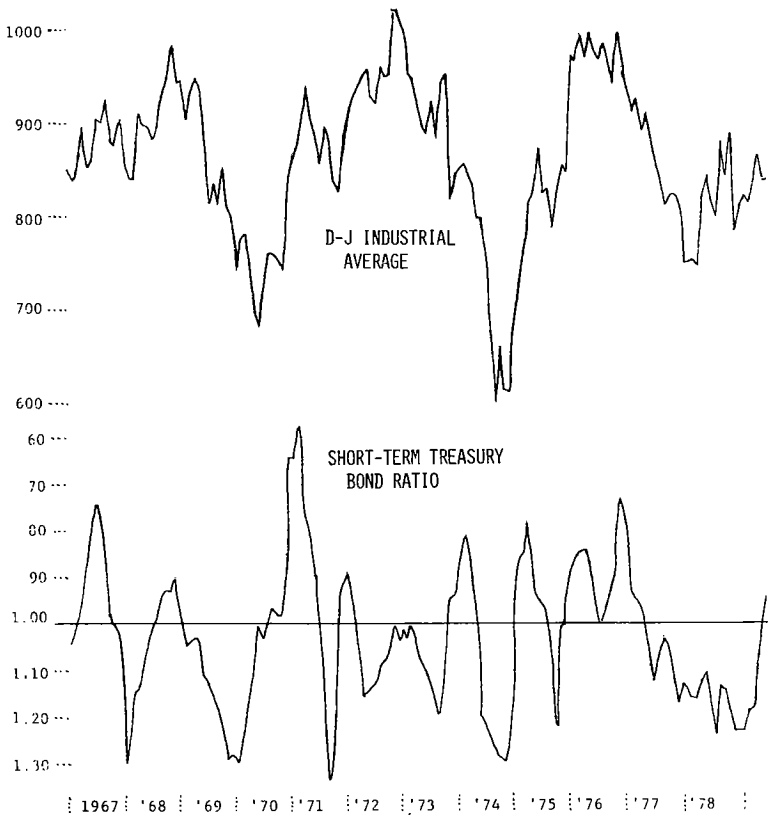
because of liquidity. The funds can be sold in a day, whereas the market for muni's is often thin–very thin (and "thin markets" are always thinnest, just when you need them!).

Question: Why are you still somewhat hesitant about bonds?

Answer: Well, the wide enthusiasm about the "bond turn" bothers me a bit. I'd rather the turn came quietly, without benefit of huge speculation on the futures market. Secondly, the Government financed about $12 billion in new money during the first half of 1979. It will probably have to raise twice that amount in the second half. That means the Government will be looking for a lot of new money in the months ahead. Finally, such authorities as the Bank Credit Analyst and Henry Kaufman of Salomon Bros. are dubious about our having seen the bottom in the bond market. I have a tremendous amount of respect for both the Analyst and Mr. Kaufman!

Question: Does this bond rally exert a bullish influence on the stock market?

Answer: You bet it does. In a recent Letter I reviewed the Bonds and Utilities relationship to the stock market. It is a very direct one. When the D-J Bond and Utility Averages are going up together, it is almost always a signal for stocks to rally.



In fact, one of the most direct relationships I've seen is the 6-month rate of change on the S&P's Short-Term Treasury Bond Index and the D-J Industrials. I am including my monthly chart of this Ratio, and you can see that it has now moved up over 1.00. This means that Standard & Poor's Short-Term Bonds are now above their price of 6 months ago. This is a big plus for stocks, but one has to be careful since the extent of the move is obviously unknown. For instance, study the rise in the ratio into late-1968. The ratio topped out at .90, then turned down. This was followed by the smash into 1970. I believe it is a plus, however, that the Bond Ratio has traced out higher bottoms during 1971, 1974 and 1978.

Question: Do you think the US is now in a recession?

Answer: I'm honestly not sure, but I know one thing. The consumer is tired, he's sagging under his huge debt load, and he's feeling the squeeze of lower purchasing power, higher prices, grueling debt charges and generally sky-rocketing energy costs. Somewhere ahead, the consumer is going to turn conservative again, and when that happens a recession will be on in earnest. In the meantime, the easy credit policy of the Fed and the ample liquidity in the economy is covering everything over like a tide of soothing syrup, and no one, absolutely no one knows for certain what is going on. The distrust of current economic statistics, is, I feel, part and parcel of today's whole economic mess.

NOTES & QUOTES: In April consumers jumped their installment credit $4.7 billion, highest increase of the year. Evidently, consumers are still running out to buy "before prices go up." But much more startling was the record 5.4% drop in payments. If figures can be believed, the consumer is now not only over his head in debt–but he is having real trouble paying that debt off. At the end of April consumer installment debt outstanding was a record $282 billion!

* *

Europeans are angry about the artificially low (under $1 per gallon gas) available in the US, and they are seething at the US $5 a barrel subsidy on imported heating oil (which tends to divert scarce oil to US markets). The fact is that Europeans are convinced that an oil war is underway with the number one combatant being the US. "Carter Says No to Europe," headlined France-Soir last week. The London Daily Mirror headlined, "Carter Declares Oil War." In the end gasoline prices will equalize throughout most of the world. So look for gas moving towards $2 per gallon in the US within a year.

One comment: If a real recession hits in the US, gas consumption would fall dramatically (on top of the present rush to economize). The drop-off in consumption would hit imported oil first, US oil last. Result would be a collapse in OPEC oil prices. I see that coming within three years!

* *

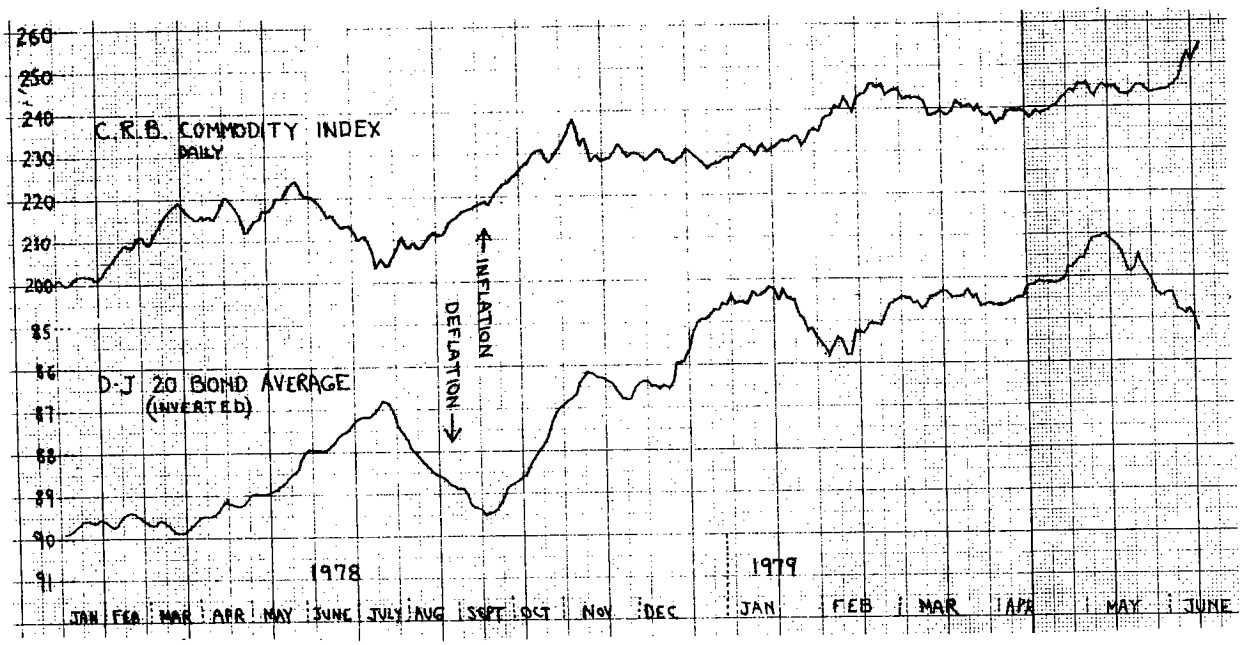
With four decades of US over-consumption ending, the price of small cars is rising while the price of big cars is sliding. According to trade sources, the price of a used "big car" is now going down at the rate of about $200 a week. In California the price of a '75 Cadillac, book value $4050, will bring only $2250 with buyers getting scarcer every day. Here in San Diego it is common to see large gas-guzzlers parked in front of houses with "for sale" signs on them. At the same time the little diesel VW's are bringing premiums of over $1000.

* *

San Diego has been one of the hottest housing markets in the nation, but housing turnover is now slowing. Overheard the other day in a restaurant, "We've been looking for a house for a long time, but I notice that houses we looked at a month or more ago are still for sale." Turnover here has dropped about 25% during the second quarter. But prices are giving only grudgingly–so far.

* *

I just received the latest quarterly "Scott Stamp Market Update," the authoritative pricing publication of stamp collecting. I have mentioned stamps here many times as an inflation hedge, but the latest price increases are little short of amazing. One reason for the surge is that Wall Street is now moving into the stamp picture.



A second reason is that stamps are now going into many pension plans. Scott's US Stamp Index was 100 in 1968, 230 in 1974, 300 in 1976, 400 in 1978 (January), 480 at the end of 1978. The Index jumped to 543 at the end of the first quarter of 1979! There would seem to be semi-panic buying of good US material at present. As I have said before, stamps have almost become an alternative form of money (and a form of money that has no history of confiscation). For interesting and authoritative information on the whole stamp area, I suggest that you write to Myron Kaller, P.O. Box 665, Hicksville, NY 11802.

* *

On June 8th the widely followed Commodity Research Bureau's Commodity Index broke above its 245 double top (see chart). A few days later it was above 250. The move was powered by the grains and more specifically, wheat. The record high on the CRB Index would seem to be the market's way of anticipating higher prices for food–and more inflation in general. But the mystery deepens when we study the daily chart of the D-J 20 Bond Average (inverted here) which shows bonds rising in price (remember, this scale is inverted). Bonds in a rising price trend would seem to be a reflection of recession and lower interest rates. What are these two indices telling us as they move in opposite directions? My only conclusion is that they are saying–STAG-FLATION, a decline in business as reflected in rising bond prices, and more inflation as reflected in record average commodity prices. Both trends are murderous for politicians, so I would expect all sorts of nonsense (bigger lies and bigger spending plans) to start pouring out of Washington.

* *

My friend Harry Browne has a way of seeing things that sometimes takes my breath away. I call it "super-clarity." Harry recently spent five days in Moscow, and his observations (from Harry Browne Special Reports, 207 Jefferson Square, Austin, TX 78731) were so fascinating that I could not resisting reprinting them here:

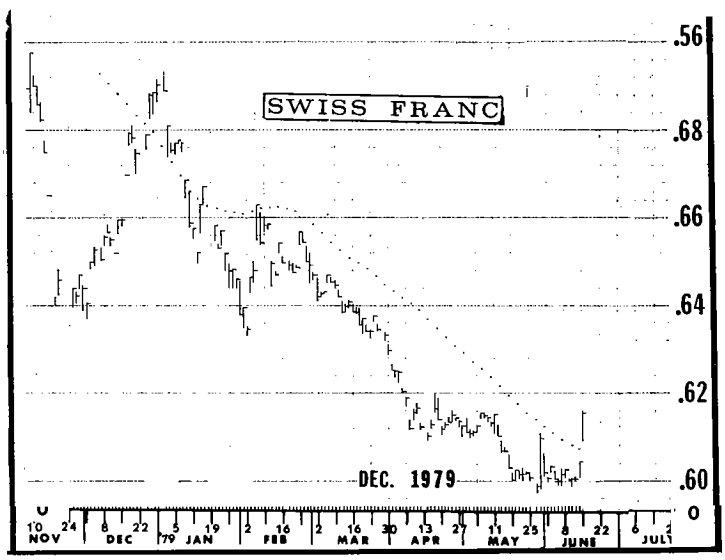
> In Moscow, you see the evidence every day. There is a shortage of everything that anyone might want. "Goods" people have no use for are available in abundance.
>
> The Soviet Union isn't a super-power; it's a farce. Yet, for forty years, western leaders have fawned over the madmen who control this mad enterprise.
>
> Probably 20% of the people there are engaged only in watching other people. There are guards *everywhere*. In the hotels and apartment houses, there is a "key lady" in every hallway on every floor — 24 hours a day. She makes sure that you never leave the hotel with your key, that you never have visitors after 11 p.m., that you never do privately anything the authorities should know about.
>
> There are guards at the entrances to everything. There are guards inside of everything. There are guards, watchers, and — probably — plenty of people watching the watchers. Whom does that leave to produce the armaments and goods that make Russia a super-power?
>
> Those who hold "normal" jobs seem to do everything in their power to avoid working at them. Hendrick Smith has said that a Soviet citizen actively resents your doing business at the place where he's employed (a result, I presume, of bringing "cooperation instead of competition" to Russia).
>
> If anything, Mr. Smith's remark is an understatement. I heard the word "Nyet" twenty times an hour — while trying to get into restaurants, to get transportation, to get theatre tickets, to get anything. The only English most Russians speak is "Closed, go way."
>
> Two hours before a restaurant is due to close, the guards at the door are already keeping people out. It makes sense, I guess, because it takes at least two hours to get food served once you're inside.
>
> If you should decide to visit Russia, you have to decide between going with a tour group or traveling on your own. With a tour, you'll probably be fairly comfortable; a guide will shield you from the disorganization, and your food might be waiting for you when you enter a restaurant. On your own, you'll see the real Soviet Union — the hostility, the inefficiency, the fear — and you'll want to get out of there within a few hours after you arrive.

This is the giant, the colossus that threatens the rest of the world. If Jimmy Carter would visit Russia without a guide, the cold war would be over in a week.

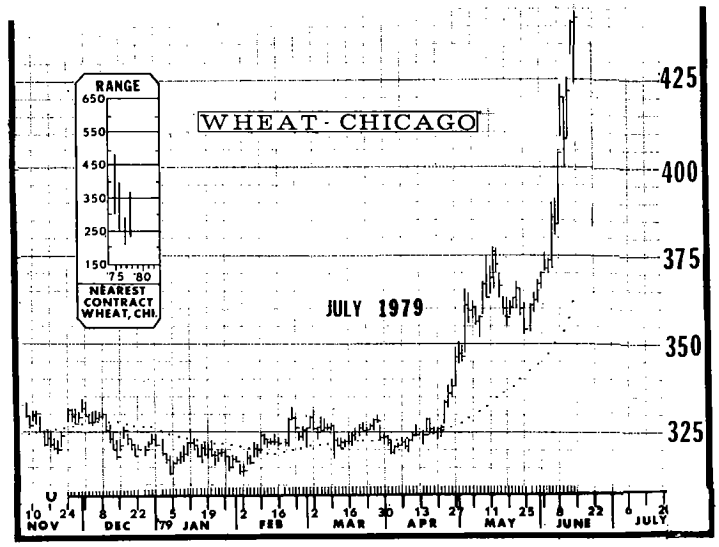
Wherever I am, I use a system of smiling and being friendly to everyone I meet — no matter how hostile the people I encounter may appear to be. Almost everywhere in the world I've been, I get a smile and friendliness back from two out of three people. In Moscow, the ratio was about one out of ten.[5]

The only warmth I encountered in Russia was from people in the "counter-economy" — the taxi drivers who offer to change currency at attractive black-market rates, the hotel employees who want to buy something from you surreptitiously, the teenagers who negotiate to trade pins for bubble gum while dodging the cops. These people radiate a courage and enthusiasm, a capitalistic warmth and benevolence, an entrepreneurial sensitivity that makes you wish you could take them home with you.

I want to show two futures charts that I feel are important. The first is the Swiss franc (Dec. '79 futures), which I believe has now bottomed against the dollar. Last week may have seen the turn to the upside for the franc, and here we see it gapping above its 10-week moving average. If the franc is turning, we may see pressure on the dollar again and ultimately a move to higher interest rates as the Fed is FORCED to defend the dollar. I think that the franc can now be purchased (but strictly by knowledgeable speculators) and dumped only if the futures make new lows. This is one reason why I do not quite trust the big drop in interest rates and the big rally in the bond market.



The second chart is a bit scary. It shows the explosion in wheat over the past three months. And the caption may be, "give us our daily bread, but please don't double the price!" Corn and soybeans look almost like wheat on the charts, and this means rising food prices throughout the nation and the world. In case you don't know it, I happen to think that the grains have been the biggest bargain around. The ratio of gold to commodities is now very low, and it is saying (see Letter 751) that either gold is too expensive or commodities are too cheap. Not since 1974 has the gold-commodity ratio been this low. (Charts courtesy of SMR Commodity Service, PO Box 14096, Denver, CO 80214).



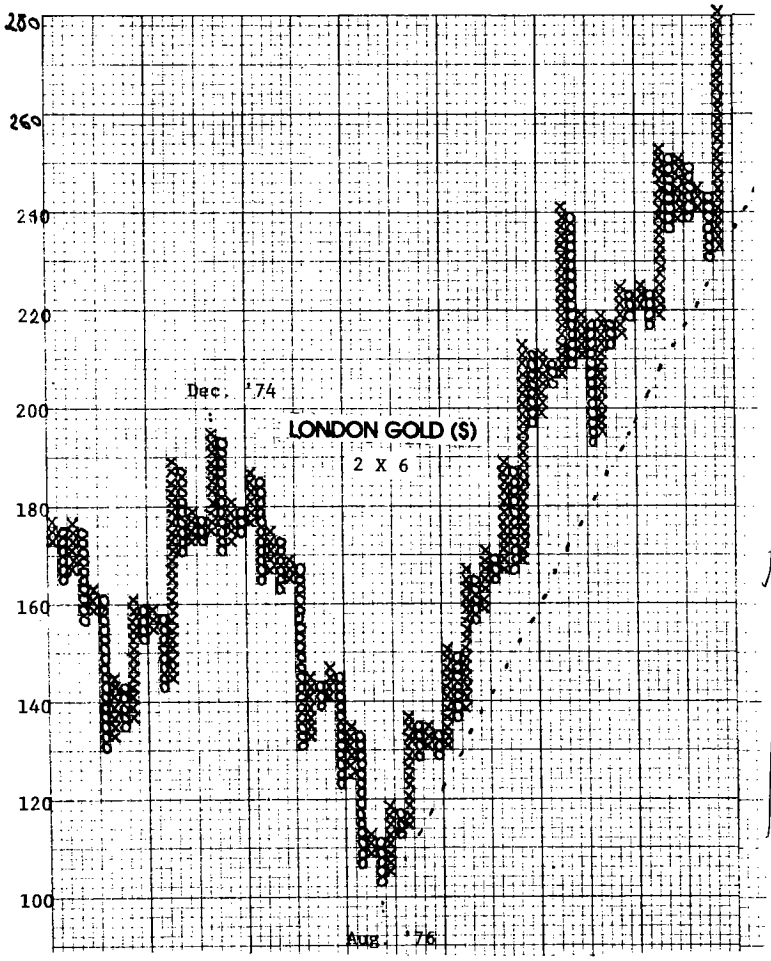
GOLD: With Carter's new $30-60 billion dollar missile now a probability, with the Carter $35 billion medical plan competing with the Kennedy $65 billion comprehensive medical plan, one wonders whether the dollar will ever make a long-term (fundamental) turn for the better–and whether gold will ever go down again. But as night follows day, gold will correct, and I don't care whether gold is headed ultimately for $500 or $5000.

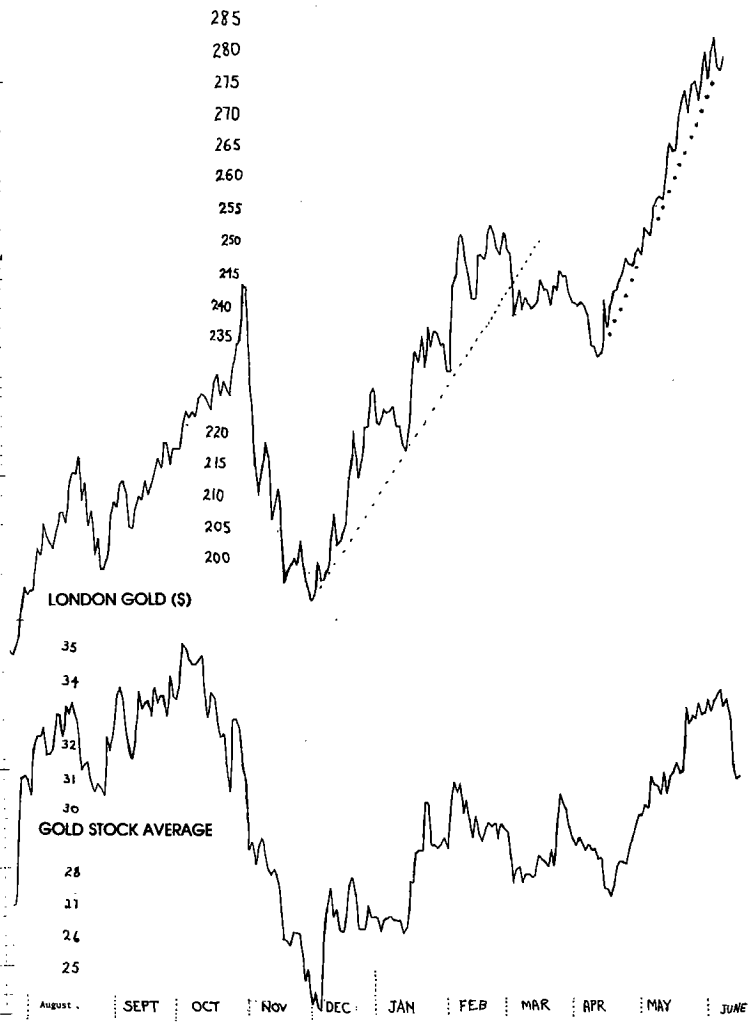
The 2 x 6 point & figure chart (each box equals 2 points and only advances and declines of 6 points or more are shown) depicts a straight-up advance from the 232 box to the 280 box. The major trendline comes in at 240, while the 13-week moving average of gold now stands at 251. Thus, the 240-250 zone is very important and should hold unless gold is on its way to topping out in a major way.

From all accounts, gold is now "on its way to 300" in anticipation of a big Arab oil boost slated for later this month. But my own feeling is that any oil increase is now fully discounted in the gold price, and "holding for 300" may prove to be a risky business from a trading standpoint. For those who are properly holding gold as a sort of perpetual chaos hedge, trading instructions only serve to bring on attacks of anxiety, and their gold coins should be held until the US adopts a policy of balancing its budgets (which may occur when oranges bloom in Siberia).

My daily chart of gold bullion and the gold stock average (GSA) again shows a strange divergence with GSA suddenly breaking to lower levels last week. Part of the trouble may be that GSA is composed of ASA and Campbell, and for some reason ASA has proved to be the "dog" of this gold move. It is probable that the S.African gold shares have been purchased for yield, and ASA's unsatisfactory yield is now working against it. Nevertheless, I ask myself, why can't GSA at least reach its high of last October? Is GSA telling us something?

I can't prove it, but I strongly suspect that gold is now at the stage where it is being (dangerously) manipulated by international rumors and half-truths. I am told that the Russians have secretly sold great hoards of gold, the receipts from which will be used to pay for badly needed grains. I am told that the S. Africans are withholding gold to drive the price up. I am told that so much gold is going into Krugerrands that the S.Africans are running short of bullion for bars. I am told that the Arabs "want gold at 300" towards the end of June, but from that point on they want to see it "go to hell in a handbasket" (presumably the Arabs have driven gold up via higher oil prices and will have sold out of their trading commitments. They will then want to re-accumulate gold at substantially lower prices).





The point is that the rumors are bouncing about like rubber balls and all or none of them may be true. But I feel that attempts are being made to bull gold and that always bothers me. I prefer being in an item that is going up without benefit of rumors, publicity or newspaper explanations. And that does not fit the gold picture at this time.

In the final analysis, I am a firm believer in market action and the truth of ratio scale charts. I show here my weekly (Thurs. close) chart of London gold drawn to ratio scale. Twice (as shown) since 1976 I have enlarged this channel to accomodate downward corrections in gold. The lower channel line was last lowered to take in the 1978 correction to 193. Gold would have to break below 230 to violate the lower channel line at this time. If that does happen I would say that gold has topped out in an important way (three times and you're out!).

LATE NOTES: There are three great mysteries in the world today. The first is President Carter (no one knows what he's thinking), the second is the Federal Reserve Board (no one knows what it's doing, if anything), and the third is the US stock market (no one knows where it's heading).

As of the close last week (June 15) the PTI hit a new high, and there's no way this market is going to fall apart until the PTI turns down. The Dow can diverge with the PTI, but the general market is not going to retreat until the PTI heads down. My data is saying "over-bought," it is saying that the market is churning on the upside, it is saying that the risk-reward for those betting for higher prices is not good–but so far that PTI keeps pushing up and up. I'm just being patient.

NEXT MAILING: July 5th